

APPROVED

STATE OF WASHINGTON
STATE INVESTMENT BOARD

Private Markets Committee Meeting
Minutes

April 7, 2005

The Private Markets Committee met in open public session at 9:06 A.M. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: Debbie Brookman, Chair
 Jeff Hanna
 John Magnuson
 Patrick McElligott
 Jeff Seely

Members Absent: Senator Brown
 Treasurer Murphy

Other Board Members
Present: Charles Kaminski
 George Masten

Others Present: Joe Dear, Executive Director
 Gary Bruebaker, Chief Investment Officer
 Tom Ruggels, Senior Investment Officer – Private Equity
 Steve Draper, Senior Investment Officer – Real Estate
 Gary Holt, Investment Officer – Private Equity
 Isabelle Fowler, Investment Officer – Private Equity
 Linda Buchanan, Administrative Secretary

Paul Silver, Senior Assistant Attorney General
Tara Blackburn, Pacific Corporate Group
Michael Humphrey, Courtland Partners
Charles Moore, Banc Fund
Craig Wrench, Washington Real Estate Holdings
David Millard, Washington Real Estate Holdings
Ric Anderson, Washington Real Estate Holdings
Joseph Landy, Warburg Pincus
Steven Schneider, Warburg Pincus
Karen Jakobi, Pathway Capital Management
Terry Melican, Pathway Capital Management

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:06 A.M. with Chair Brookman identifying members present. Chair Brookman announced that, due to a lack of quorum, all action items presented would be forwarded to the Board for action.

REVIEW AND APPROVAL OF MINUTES – FEBRUARY 3, 2005

The adoption of the minutes was deferred to the next meeting due to a lack of quorum.

PRIVATE EQUITY – BANC FUND VII, L.P. – INVESTMENT RECOMMENDATION

Mr. Ruggels introduced himself and Ms. Blackburn of Pacific Corporate Group (PCG). Mr. Ruggels stated that staff recommends an investment of up to \$50 million in Banc Fund VII, L.P. (BFVII), a private equity fund focused on U.S.-based financial services companies. The WSIB invested \$20 million in Banc Fund IV in 1996 and \$30 million in Banc Fund V in 1998. The proposed investment is consistent with the private equity annual plan presented to the Committee in January. Mr. Ruggels described the firm's management team, experience, expertise, organization, reputation, sourcing network, strategy, past performance, consistency of returns, low loss ratio, competition, and fit in the WSIB private equity portfolio. He discussed key man issues and the provisions and terms of the agreement.

[Mr. Masten was in attendance at 9:14 A.M.]

Ms. Blackburn discussed the firm's strategy, performance history, management, consistency, fee structure, and ability to reinvest capital. PCG recommended an investment of up to \$50 million.

The Committee discussed exit strategies, typical investment size, volume of deals, sourcing, and areas of investment.

Mr. Moore, Banc Funds, introduced himself and described the firm's investment strategy, geographic diversity, management team, experience, investment performance, fees, consistent returns, low loss level, and exit strategies.

Discussion ensued regarding typical investment size, growth opportunities, research methods, sourcing methods, competition, and investments in Washington State.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of approval of an investment of up to \$50 million, plus fees and expenses, in Banc Fund VII, L.P., subject to continued due diligence and final negotiation of terms and conditions.

REAL ESTATE CONSULTANT CONTRACT

Mr. Draper introduced himself and stated that staff recommends that Courtland Partners be retained as the WSIB's general real estate consultant. He stated that Courtland has done a good job, is thorough, has a good relationship with staff, and that their proposal was the best received.

Discussion ensued regarding terms and fees.

Mr. Bruebaker stated that Courtland is large enough to do the job, but small enough that the WSIB is the firm's most important client. He stated that Courtland provides excellent service, is fair, and is a great consultant to work with.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of authorizing the hiring of Courtland Partners, Ltd., as the WSIB's general real estate consultant, subject to final negotiations of the contract.

[The Committee recessed at 10:01 A.M. and reconvened at 10:14 A.M.]

REAL ESTATE – WASHINGTON HOLDINGS STRUCTURED FINANCE, LLC – INVESTMENT RECOMMENDATION

Mr. Draper described Washington Holdings Structured Finance, LLC (WHSF), including its investment strategy, geographic and property type focus, risk return attributes, and good fit within the WSIB real estate portfolio due to its income return component. He also described the management team's experience, underwriting ability, historic performance, the expected returns of WHSF, and its complementary fit with Washington Real Estate Holdings' (WREH) investment activities. He also highlighted several risks, including the current competitive pricing environment, exposure to WREH, dependency of the strategy on income, and the potential addition of new markets for WREH. He stated that staff recommends a \$250 million commitment in WHSF.

Mr. Humphrey, Courtland Partners, introduced himself and discussed the team's investment strategy, experience, WREH allocation, capacity, personnel overlap, WSIB control, investment evaluation system, and then spoke about general market conditions and national vacancy rates. Courtland recommended an investment of \$250 million.

The Committee discussed personnel, differences between the WHSF approach versus bonds, risk adjusted returns, focus on underlying security, first loss positions, current market conditions, skill sets required to implement the strategy, cash flows, leverage ratios, types of investments, credit risks, and default protections.

Mr. Wrench, Mr. Anderson, and Mr. Millard, WREH, introduced themselves and described the history of WREH, its management team, investment performance, geographic focus, and corporate structure. They discussed current market conditions and the benefits of WHSF, its structure, strategy, focus, expected returns, product types, targeted investments, underwriting model, and current investment pricing.

The Committee discussed the security of debt positions, cash flows from property securing the debt positions, cash management agreements, current rates and spreads, yield maintenance, third-party fees, likely leverage levels based on current market conditions, illiquidity premiums, the partnership's ability to recycle money, fit with the WREH model, and fit with the WSIB's real estate portfolio.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of approval of an investment of \$250 million, plus fees and expenses, in Washington Holdings Structured Finance, LLC, subject to continued due diligence and final negotiation of terms and conditions.

[The Committee recessed at 11:39 A.M. and reconvened at 12:12 P.M.]

PRIVATE EQUITY – WARBURG PINCUS PRIVATE EQUITY IX, L.P. – INVESTMENT RECOMMENDATION

Mr. Holt introduced himself and stated that staff recommends an investment of up to \$400 million in Warburg Pincus Private Equity IX, L.P. The Board has invested in Warburg Pincus funds since 1994. Mr. Holt discussed the fund's target size and cap amount, strategy, infrastructure, reputation, investment performance history, diversification, exposure to Asia, fit in the WSIB private equity portfolio, alignment of interest, fee structure, and completed generational transition.

Ms. Blackburn discussed the firm's unique platform, global presence, size of team, structure, strategy, industry focus, performance history, and conservative valuation methodology. PCG recommended an investment of up to \$400 million.

The Committee discussed the potential of a larger investment, fee structure, and management structure.

Mr. Schneider and Mr. Landy, Warburg Pincus, introduced themselves and discussed the firm's performance, distributions, strategy, diversification, industry focus, geographic specialization, experience, business model, advantages of scale, management structure, fee structure, alignment of interest, terms, fund-raising model, and sourcing network.

Discussion ensued regarding the possibility of a larger commitment, co-investment opportunities, fee structure, competition with other WSIB partners, and percentage of fund to be invested in North America.

[The Committee recessed at 1:35 P.M. and reconvened at 1:45 P.M.]

The Committee discussed the advantages of co-investment, the WSIB's long-term relationship with Warburg Pincus, and the proposed size of the WSIB's investment.

Ms. Blackburn stated that PCG is probably comfortable with a larger commitment but would need to meet with her internal investment committee before committing PCG the firm.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of approval of an investment of up to \$700 million, plus fees and expenses, in Warburg Pincus Private Equity IX,

L.P., subject to continued due diligence and final negotiation of terms and conditions.

The Committee discussed the desire to increase allocations with the best partners and reduce the number of relationships.

PRIVATE EQUITY – PATHWAY CAPITAL MANAGEMENT, LLC – ADDITIONAL ALLOCATION RECOMMENDATION

Ms. Fowler introduced herself and stated that staff recommends an additional allocation of up to \$200 million in Pathway Capital Management. She discussed the WSIB's history with Pathway, the firm's management team, performance, fit in the WSIB private equity portfolio, and ability to obtain meaningful commitments to quality partnerships requiring limited WSIB staff resources.

The Committee discussed Pathway's contract status and renewal options.

Ms. Jakobi and Mr. Melican, Pathway, introduced themselves and described Pathway's history, performance, strategy, management, client base, access to partnerships, investment selection process, analysis, and documentation.

Discussion ensued regarding the number of new relationships within the WSIB portfolio managed by Pathway, investing in first-time funds, investment criteria, sourcing, public disclosure issues, monitoring procedures, market conditions, deal pipeline, funds scheduled to close this month, sector exposure, average size of investment, and in-state investing.

Due to a lack of quorum, the Private Markets Committee was unable to take action. It was the consensus of those Committee members present to forward this item to the Board for consideration of an additional allocation of \$200 million to be invested by Pathway Capital Management under the terms and conditions of the existing contract.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 3:18 P.M.